March 17, 2016

TO: Mānoa Deans, Directors, Vice Chancellors
FROM: Robert Bley-Vroman, Chancellor
SUBJECT: State of the staged implementation of the new budget model

We are now ready to begin the phased implementation of the new budget model.

The purpose of this memo is to outline at a high level just where we are and the steps that will be taken. Vice Chancellor Cutshaw will follow up with a memo containing the nitty-gritty details of implementation.

Moving toward implementation of the new Budget Model.

There is consensus on the overall architecture of the model. Full implementation will be complex and take some time. We must move cautiously because of the likelihood of unanticipated difficulties and unintended consequences. While we cannot implement everything fully right now, we can incrementally put some components into place right now, in pilot form. And, for other components, we must do some preliminary work before implementation.

Basic concept: Revenue-based Return and Mission support

We will move away from an allocation system based on fund types (G-funds, S-funds, etc.) to one based on the distinction between Revenue-based Return and Mission Support. The Model allocates amounts of money, not types/colors of money.

[Within the total allocated amount, other considerations—largely pragmatic—determine how much is distributed in what “color.” For example, the proportion of G-funds within the allocated total needs to be related to the unit’s salary base of legislatively authorized (“permanent”) positions, both because this is an appropriate use of G-funds and because it is important that G funds be completed expended during the fiscal year. ]
Instructional return

We will immediately begin to implement the system for instructional return. For simplicity and transparency, we will continue to pilot the system, as we did last year, based on a return on the “delta”—that is on any increase in total tuition collected (i.e. tuition excluding waivers, and minus the portion reserved for scholarships).

A. **Undergraduate instructional return**: A percentage of the amount of any increase of tuition collected (that is, excluding waived tuition, minus the amount reserved for scholarships), will be returned to units based on the weighted metric of two parts SSH, one part majors, and one part graduates (the “50-25-25” weighting). Provisionally, we have been using 40% of total tuition collected as the amount returned to units based on the weighted metric.

B. **Graduate instructional return**: There are technical and logistic difficulties in implementing the new model, under which 70% of the amount of any increase in regular graduate tuition collected would be returned to the units in which the students are enrolled, and, for professional programs with differential tuition, 100% of any increase in differential the tuition collected. While we hope to make progress on this, it may not be possible to implement it for 2016–2017.

Research Indirect Return

There is no intent to change the existing principles for the return of research indirect (an amount equal to 50% of the indirect generated by the grants).

Outreach, Summer Session, and special programs

While we may want to consider the revenue allocation systems for these programs, for now we will put the matter aside. We will simply use the existing methods.

Responsibility for scholarship aid

We intend eventually to exempt all graduate programs from the 20% scholarship “tax” on tuition collected, and to give each program the responsibility for giving out the required amount in scholarships. This will permit and incentivize the use of external sources (chiefly donations, and typically, but not necessarily, administered through the UH Foundation) in order to meet the scholarship requirement. However, we know that there will be challenges in implementing the system. Therefore, we will pilot it in 2016–2017 just with the graduate professional programs in Law, Medicine, and Business. For these programs, we have already worked out, over the past year, a process that is ready to be tested.

Accounting for waivers

We will move to a system in which tuition waivers are accounted for. (The term “monetized” seems to be confusing to some, and we will avoid it.) That is, waivers will be assigned a monetary value in our accounting systems, so that they can in principle be billed. This will make
it possible, for example, for tuition of graduate assistants to be a part of the budgets of external grants. And, any tuition collected from external sources will be returned—based on the usual Instructional Return algorithm—to the units. We realize, however, that there are many complexities in setting up such a system. Therefore, the chancellor will appoint a small task group to work on this project during 2016–2017, with the goal of **pilot implementation in 2017–2018**.

**Mission Support**

A full system deciding Mission Support will take some time to develop, and it will doubtless be continually refined. A small committee of deans is working to develop initial principles and process.

**Future Governor’s restrictions on state funds**

Under the new budget model, a **Governor’s restriction will not affect a unit’s Revenue-Based allocation**. In other words, a unit’s Undergraduate and Graduate Instructional Return (including the return of differential tuition in professional programs) is not reduced by a restriction.

[When the Governor restricts funds, the amount of money in the Funding Pool is reduced, and so the money immediately available for Mission Support, for common strategic initiatives, and for shared services is reduced.]

**Ensuring stability**

The source of discretionary adjustments is Mission Support from the Funding Pool. We will have some additional money in the Funding Pool from performance funding and from a portion of any increased tuition collected, and this will permit some strategic initiatives (e.g. beefing up recruitment efforts, for example) and also for some adjustments to Mission Support for units (for example ensuring the availability of courses, and improving student success). Our goal is that the total allocation for any unit from all sources for 2016–2017 will not decrease from 2015–2016. We believe that we can achieve that goal.

**In conclusion…**

The last year and a half has seen significant progress in moving to a new budget model for Mānoa. We have established general principles, agreed on the overall structure and philosophy of the model. We are positioned to move toward the increased rationality and transparency that we all have striven for. My thanks to all for their work on this.